

UNDERSTANDING INSURANCE'S KEY ROLE IN OUR FINANCIAL SYSTEM

INSURANCE: WHAT IS IT FOR?

- The sharing--or pooling--of risk is the central concept of the insurance business. **If risks can be divided among many members of a group, misfortunes that could be crushing to one individual or group can be made bearable for all.**
- Risk-sharing can be viewed as mutual aid, sound business practice, and enlightened social behavior rooted in accepted principles of ethics.
- **Insurers reduce financial uncertainty** by substituting an insurance premium for the assumption of the risk of a large loss, and a promise to pay in the event of such a loss. Premiums are priced to factor in the assumed risks written into a contract. The insurer can then distribute the large losses of a few through a large number of premium payers, each of whom pays a relatively small amount.

INSURANCE'S ESSENTIAL ROLE IN OUR ECONOMY

- **The insurance industry is a critical part of the country's financial infrastructure.** As 'financial first responders,' insurers provide relief and economic stability in times of crisis and catastrophes such as tornadoes, hurricanes, and wildfires.
- Insurers themselves, not unlike banks, are major investors and suppliers of capital to the economy. **Without insurers, the amount of uncertain exposure to catastrophic risk would make it difficult to obtain credit or financing** since few lenders or investors would be willing to risk funds without a guarantee of safety for their investments.
- **Insurance has long been, and will always be, a crucial provider of relief and economic stability in times of crisis.** As we head into the season for hurricanes, tornadoes, and wildfires while navigating this pandemic, families and businesses across the U.S. are relying on insurers' ability to pay for losses that are actually covered under their contracts.

INSURANCE'S LONGSTANDING HISTORY

- Chinese merchants protected themselves from financial ruin centuries ago by dividing their precious cargoes among several boats. If one of the boats was battered to pieces during marine transport, no merchant lost all his goods, but rather only a small portion.
- The first American insurance company was founded in Philadelphia in 1752 by Benjamin Franklin, and was established to cover policyholders for loss of property through fire damage. Similarly to insurance today, eligibility for coverage was determined through property risk assessments.